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SUBJECT: GRYZLOV DRIVES INTO TREE WITH PROPOSED NEW AUTO TAX

Classified By: Political Minister Counselor Susan Elliott for reasons 1
.4 (b) and (d)

11. (SBU) Summary: On November 18, the Federation Council November 18 overwhelmingly rejected legislation that would have doubled the basic vehicle registration tax rate and allocated the money for transportation infrastructure projects. On November 13 all United Russia's delegates to the State Duma, led by Speaker Boris Gryzlov, had voted for the bill, while all members from opposition parties had voted against. By that evening, however, Russian blogs had already begun to speculate about a reversal of the very publicly unpopular bill. On Monday Gryzlov requested that the Federation Council return the bill to the Duma for further consideration following criticism from Sergei Naryshkin, head of the Kremlin administration. Federation Council Speaker Sergei Mironov, a close Putin ally, came out against the bill immediately as well. On November 20, the State Duma voted unanimously to return the base federal tax rate to its previous level. End Summary.

A Win for Everyone but United Russia

12. (C) The bill was a major embarrassment for Gryzlov, especially as he prepares to chair sessions of the United Russia annual party conference in St Petersburg November 21. On November 18, he tried to save face by unconvincingly arguing that some regional authorities mistakenly believed that the bill would require them to double all transportation taxes. Gryzlov pushed the bill through himself, suppressing debate within his faction among United Russia deputies who recognized the bill's unpopularity. The reversal is a major victory for opposition political parties, with Just Russia's Mironov pointing to evidence of problems with United Russia's dominance in Parliament. Center for Political Technologies, Deputy Director Boris Makarenko privately described the situation as, "a total screw up."

13. (SBU) Greater speculation has been focused, however, on the implications for the Tandem. For Gryzlov to have backed this bill he must have had the support of the Prime Minister. Dmitry Oreshkin of the Mercator think tank sees evidence that, within the Kremlin, Medvedev's liberal thinking has won out against Putin, whose more Soviet mentality led to the use of riot police against protesters in the Far East resisting new automobile import taxes earlier this year. Alexei Mukhin with the Center for Political Information commented that this may be evidence that Putin and Medvedev are extremely anxious about the prospect of a drop in their approval ratings.

14. (C) In a private meeting November 19, Just Russia State Duma Deputy Oksana Dmitriyeva stressed that the new amendments to this bill will not actually prevent the raising of taxes for car owners. The Federal Government sets a standard car registration tax which is collected by the local branch of the federal tax service. Until this legislation, local governments had the discretion to raise that tax to as

much as five times the base rate. While the new Duma amendment eliminates the doubling of the base rate, it also increases the discretion of local government to raise the tax to a maximum ten times the present rate. With budgets stretched during the crisis, Dmitriyeva believes that most local legislatures will immediately raise taxes as high as possible. This will allow United Russia at the federal level to pass responsibility for a tax increase on to the regions.

Comment

14. (C) It is not clear how Gryzlov's legislative debacle will affect his performance at United Russia's party congress in St Petersburg. Everyone -- save the leadership of United Russia -- realized that even this increase would be extremely unpopular. All commentators are in agreement that this was a serious error of judgment that has publicly embarrassed the party.
Beyrle